

Commonwealth Edison Company	:	
	:	ICC Docket No. 10-0467
	:	
Proposed general increase in electric rates	:	
	:	

**REBUTTAL TESTIMONY
OF**

JEFFREY MEROLA

ON BEHALF OF THE COALITION TO

REQUEST EQUITABLE ALLOCATION OF COSTS TOGETHER

REACT

COMPRISED OF:

**A. FINKL & SONS, Co.
AUX SABLE LIQUID PRODUCTS, LP
THE CITY OF CHICAGO
COMMERCE ENERGY, INC.
FLINT HILLS RESOURCES, LP
FUTUREMARK PAPER COMPANY
INTEGRYS ENERGY SERVICES, INC.
INTERSTATE GAS SUPPLY OF ILLINOIS, INC.
THE METROPOLITAN WATER RECLAMATION DISTRICT
OF GREATER CHICAGO
PDV MIDWEST REFINING LLC
UNITED AIRLINES, INC.
WELLS MANUFACTURING, INC.**

TABLE OF CONTENTS

I.	PURPOSE OF TESTIMONY AND GENERAL CONCLUSIONS	1
II.	COMED'S FAILURE TO INCLUDE ALL CUSTOMER CARE COSTS	6
III.	COMED’S CLAIM THAT THE SWITCHING STUDY IS NOT OVERLY SPECULATIVE IS UNPERSUASIVE AND MISLEADING	9
IV.	STAFF WITNESS MR. RUKOSUEV’S JUSTIFICATION FOR SUPPORTING THE SWITCHING STUDY SHOULD BE REJECTED.....	12
V.	COMED’S CRITICISMS OF MY ALLOCATOR ADJUSTMENTS ARE UNFOUNDED	16
A.	COST ALLOCATORS	18
B.	BILL CALCULATION ALLOCATOR.....	19
C.	SYSTEM BILLING ALLOCATOR	21
D.	IT ADJUSTMENTS BETWEEN DELIVERY AND SUPPLY	23
E.	ALLOCATION OF COSTS BY CIMS USERS	23
F.	GENERAL IT ALLOCATOR	26
VI.	CONCLUSION.....	27

STATE OF ILLINOIS

BEFORE THE ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	:	
	:	ICC Docket No. 10-0467
	:	
Proposed general increase in electric rates	:	
	:	

DIRECT TESTIMONY OF JEFFREY MEROLA

I.

PURPOSE OF TESTIMONY AND GENERAL CONCLUSIONS

Q. Are you the same Jeffrey Merola who submitted direct testimony in this proceeding?

A. Yes. I submitted direct testimony on behalf of the Coalition to Request Equitable Allocation of Costs Together (“REACT”). My direct testimony was designated as REACT Exhibit 2.0 and was accompanied by REACT Exhibits 2.1-2.11. I have since submitted corrected versions of Exhibits 2.4 and 2.5, designated as REACT Exhibits 2.4C and 2.5C. The focus of my direct testimony was the allocation of “Customer Care Costs.” Customer Care Costs represent those costs ComEd incurs to provide customer service for its delivery and supply customers. Customer service includes the calculation and generation of bills, tracking and maintaining customer information, mailing of bills, responding to customer phone calls, metering services, payment processing, credit and collections, and general customer relations activities. This includes not only the costs associated with

direct customer interaction but also the cost of computer systems and infrastructure to support these business activities.¹

The Illinois Commerce Commission (“Commission”) repeatedly has questioned the allocation of Customer Care Costs by Commonwealth Edison Company (“ComEd”), inquiring why ComEd allocated virtually 100% of those Customer Care Costs to the delivery function and virtually none of those Customer Care Costs to the supply function. The effect of ComEd’s misallocation is to create inaccurate pricing, overcharging customers who take supply from a supplier other than ComEd and undercharging customers who take supply from ComEd.

Q. What is the purpose of your rebuttal testimony?

A. I review and comment on statements regarding my direct testimony made in the rebuttal testimony of ComEd witness Ronald E. Donovan, P.E. (ComEd Ex. 48.0), and in the rebuttal testimony of ComEd witness Robert Garcia (ComEd Ex. 50.0). I also review and comment on the direct testimony of Commission Staff witness Philip Rukosuev (Staff Ex. 12.0). Despite the Commission’s clearly stated concerns about ComEd’s position that less than 1% of Customer Care Costs previously have been allocated to the supply function, ComEd and Staff endorse the status quo, suggesting that the allocation of Customer Care Costs should be based on the Switching Study ComEd presented in this proceeding.

¹ ComEd Ex. 19.0R, Donovan Revised Supplemental Direct Testimony at 5-6:112-121.

38 **Q. What assertions did ComEd witnesses Mr. Donovan and Mr. Garcia make in**
 39 **response to your direct testimony?**

40 A. ComEd's witnesses asserted three criticisms of my direct testimony.

41 (1) ComEd claims that my analysis overstated the quantity of costs that
 42 ComEd failed to include in its analysis of Customer Care Costs;

43 (2) ComEd disagrees with my recommendation that the Switching Study be
 44 dismissed, in part, because it is pure speculation; and

45 (3) ComEd takes issue with my adjustments to the cost allocators that ComEd
 46 used in the Allocation Study.

47

48 **Q. Are ComEd's criticisms valid?**

49 A. No. As I will discuss in detail below, ComEd's criticisms are baseless.

50 (1) Regarding the amount of Customer Care Costs that ComEd failed to
 51 include in its analysis, ComEd admits that it did not include all of the
 52 costs, and confirms that any alleged error in my analysis is irrelevant to
 53 my conclusions -- concluding that "it does not appear that his inaccurate
 54 representations . . . has [sic] affected the dollar values of his
 55 calculations".²

56 (2) Regarding the speculative nature of ComEd's Switching Study, ComEd
 57 admits that neither the 10% nor the 100% switching scenario is expected
 58 to occur in the near future.³

² ComEd Ex. 48.0, Donovan Rebuttal Testimony at 4:73-76.

³ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 5:107-108.

(3) Regarding the adjustments that I made to ComEd's Allocation Study, ComEd admits that its proposed allocation factors are imperfect,⁴ but then goes on to imply that ComEd's proposed allocators are inherently better than mine simply because ComEd calculated them. Picking admittedly irrelevant factors and performing mathematical operations on those factors does not somehow make the resulting answer more accurate. My adjustments to ComEd's proposed allocators are based upon my experience and expertise in designing, developing and implementing software systems, and are reasoned and reasonable, particularly given ComEd's failure to provide meaningful data.

Q. What is Staff witness Philip Rukosuev's opinion with respect to the allocation of Customer Care Costs to the supply function?

A. Mr. Rukosuev agrees with ComEd that the Commission should adopt the Switching Study.⁵ He states that he agrees with ComEd's approach because: (1) the Switching Study recognizes the cost of providing customer care for unbundled customers is almost equal to the combined cost for bundled customers; (2) use of the Allocation Study would set an undesirable precedent for other Illinois utilities, and (3) the Switching Study recognizes that ComEd is the default provider.⁶

⁴ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 7:140-141.

⁵ ICC Staff Ex. 12.0, Rukosuev Direct Testimony at 41:961-963.

⁶ ICC Staff Ex. 12.0, Rukosuev Direct Testimony at 30-32:688-732.

Q. Do you agree that the Switching Study should be adopted by the Commission for the reasons outlined by Mr. Rukosuev?

A. No. Customer Care Costs should be allocated in a manner that respects principles of cost causation, encourages the development of retail electric competition for residential customers, and treats all customers fairly. Accepting the results of the Switching Study does not accomplish those principles. On the contrary, the Switching Study approach disregards cost causation, creates false, anti-competitive price signals, and requires customers taking supply from a supplier other than ComEd to cross subsidize customers that take supply from ComEd. Further, Mr. Rukosuev's concern about not allocating costs using an embedded cost of service methodology because it could set a precedent for allocating Customer Care Costs for other Illinois utilities is not a compelling reason for deviating from a cost causation methodology. Customer Care Costs should be fairly allocated between the delivery and supply functions for ComEd. If anti-competitive cross subsidies override the need to reflect cost-causation in other utilities, then the Commission should address this issue based on the specific facts in each case. However, in this case, anti-competitive cross subsidies are created by not allocating costs based on cost causation.

Q. Please summarize your conclusions.

A. ComEd's criticisms of my direct testimony are unfounded and baseless. The Commission should arrive at the same conclusion as it did in the 2008 Special Investigation Order (ICC Docket No. 08-0532), but now require implementation

of an accurate, fair allocation of Customer Care Costs. The Commission should reject ComEd's Switching Study approach that plainly misallocates those costs, and instead should direct ComEd to correct the errors in its Allocation Study as I presented in my direct testimony. I have calculated that in doing so, ComEd's allocation of Customer Care Costs to the supply functions should increase from \$31.2 million to at least \$90.8 million, a nearly three-fold difference.⁷

II.

COMED'S FAILURE TO INCLUDE ALL CUSTOMER CARE COSTS

Q. Does ComEd agree with you that it did not include all Customer Care Costs in its analysis?

A. Yes. ComEd candidly concurs that it excluded "indirect costs" from its studies.⁸ In other words, ComEd admits that it did not include all Customer Care Costs in its analysis.

Q. Does ComEd provide any new explanations for why it excluded this portion of Customer Care Costs?

A. No. ComEd's only explanation in its rebuttal testimony for excluding indirect costs from its analysis is that the Commission did not literally instruct ComEd to include all Customer Care Costs.⁹ In fact, the opposite is true: the Commission did not authorize ComEd to exclude any portion of its Customer Care Costs from

⁷ See REACT Exhibit 2.5C.

⁸ ComEd Ex. 50.0, Garcia Rebuttal Testimony at 11:249-250.

⁹ ComEd Ex. 50.0, Garcia Rebuttal Testimony at 11:256-258.

124 its analysis of how Customer Care Costs should be allocated. ComEd continues
 125 to offer no reasonable explanation for why it decided to exclude a substantial
 126 portion of its Customer Care Costs in its analysis in the first place.

127

128 **Q. Why does ComEd claim that your analysis of the total level of Customer**
 129 **Care Costs is inaccurate?**

130 A. ComEd initially asserts that my analysis is inaccurate, but then later just says my
 131 analysis is “misleading”.¹⁰ Either way, ComEd’s assertion is based on the my
 132 statement that out of \$435.3 million in Customer Care Costs, ComEd excluded
 133 \$259.1 million by arbitrarily including only direct operations and maintenance
 134 (“O&M”) costs in its analysis.¹¹ ComEd contends that my inclusion of all
 135 Customer Care Costs is misleading because it includes Metering Services and
 136 Advertising Costs, which both ComEd and I allocate fully to delivery services.

137

138 **Q. Did ComEd include Metering Services and Advertising Costs in the total**
 139 **costs shown in its original analysis?**

140 A. Yes. ComEd specifically includes both of these categories in its “Grand Total of
 141 Study” figures in Exhibit 19.1 and in Mr. Donovan’s supplemental direct
 142 testimony.¹²

143

¹⁰ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 3:48-57.

¹¹ REACT Ex. 2.0, Merola Direct Testimony at 10:195-197.

¹² ComEd Ex. 19.0R, Donovan Revised Supplemental Direct Testimony at 4:87.

144 **Q. Does ComEd's criticism have any bearing on the results of your analysis?**

145 A. No. ComEd confirms that its claim that I mischaracterized the total Customer
 146 Care Costs has no bearing on my calculations.¹³ In other words, even taking
 147 ComEd's criticism as valid (which it is not), ComEd itself recognizes that the
 148 ultimate conclusion I reached in my direct testimony remains unchanged.
 149 ComEd's total allocation of Customer Care Costs to the supply function should be
 150 at least \$90.8 million instead of ComEd's allocation of \$31.2 million.¹⁴

151

152 **Q. ComEd states that you double counted Advertising costs in your total cost to**
 153 **serve calculation. Is this accurate?**

154 A. Yes. I inadvertently added Advertising costs twice in my reference to the total
 155 cost to serve in REACT Exhibits 2.4 and 2.5. After correcting the Exhibits, the
 156 total cost to serve associated with ComEd's Customer Care Cost should be \$434.0
 157 million instead of \$438.5 million. I have filed corrected versions of REACT
 158 Exhibits 2.4 and 2.5, which fully address this criticism.

159

160 **Q. Does this error in any way change your conclusion concerning the proper**
 161 **amount of Customer Care Costs that ComEd should allocate to the supply**
 162 **function?**

163 A. No.

164

¹³ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 4:73-76.

¹⁴ REACT Ex. 2.0, Merola Direct Testimony at 10:209-211.

165 **Q. You stated that the corrected figure is \$434.0 million in REACT Exhibit 2.4C**
 166 **and REACT Exhibit 2.5C. However, earlier you said the total figure was**
 167 **\$435.3 million. What is the reason for the difference between these two**
 168 **figures?**

169 A. The \$453.3 million figure is derived directly from ComEd's ECOSS while the
 170 \$434.0 million figure is summed from a number of ComEd's responses to
 171 REACT data requests. I do not know why ComEd's two different data sources do
 172 not match. In an abundance of caution, I have based my result -- that at least
 173 \$90.8 million in Customer Care Costs should be allocated to the supply function -
 174 - on the lower \$434.0 million figure.

175

176

III.

177

178

COMED'S CLAIM THAT THE SWITCHING STUDY IS NOT OVERLY SPECULATIVE IS UNPERSUASIVE AND MISLEADING

179 **Q. You testified in your direct testimony that ComEd's Switching Study is based**
 180 **on pure speculation, correct?**

181 A. Yes. In my direct testimony I explained that ComEd's Switching Study is
 182 speculative because it is based on a hypothetical scenario of 10% or 100%
 183 switching, neither of which ComEd expects to occur at any point in the
 184 foreseeable future.¹⁵

185

¹⁵ REACT Ex. 2.0, Merola Direct Testimony at 17:356-364.

186 **Q. Why does it matter that the 10% and 100% switching costs are speculative?**

187 A. It matters for two reasons. First, because the scenarios are so distant, the
188 Commission should recognize the inherent lack of accuracy possible in
189 forecasting future circumstances. Second, relying on future speculative costs to
190 set today's allocation obfuscates the long-accepted and statutorily mandated
191 methodology of assigning costs to their causers.¹⁶ Costs for assets that were put
192 into service when switching levels were comparable (or lower than) today's
193 switching levels were caused by very different drivers than costs at future
194 hypothetical switching levels. And of course, should large scale switching occur
195 at any point in the future, it will be within the Commission's authority to revisit
196 the issues of Customer Care Cost allocation to reflect the then-existing conditions.

197

198 **Q. On what basis does ComEd claim that its Switching Study is not overly**
199 **speculative?**

200 A. ComEd concedes that neither 10% nor 100% switching is expected to occur in the
201 near future, but then says that neither of those conclusions have a monetary
202 impact on ComEd's analytical results.¹⁷

203

¹⁶ See 220 ILCS 5/16-108(c).

¹⁷ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 5:102-110.

204 **Q. Has ComEd previously defended the Switching Study by focusing on the**
 205 **supposed benefits of performing the analysis based on hypothetical 10% or**
 206 **100% switching?**

207 A. Yes. ComEd has defended the Switching Study numerous times because it relies
 208 upon 1%, 10%, and 100% switching scenarios, stating that analyzing costs at
 209 these different switching levels is a “means of determining whether the costs are
 210 inherently related to distribution service or something else, like supply service.”¹⁸
 211 That is, ComEd has asserted that the results of the different assumptions are
 212 central to its analysis. ComEd is now doing a proverbial one-eighty, claiming that
 213 the 10% and 100% switching scenarios would not have a monetary impact
 214 because, if the Switching Study is accepted by the Commission, allocation would
 215 only be done based on the 1% results.¹⁹

217 **Q. If ComEd is requesting that the Commission accept the results of the**
 218 **Switching Study, is ComEd requesting the Commission to accept the results**
 219 **of analysis based on 10% and 100% switching assumptions?**

220 A. Yes. ComEd has presented the 1%, 10%, and 100% switching scenarios all as
 221 part of its Switching Study; it is not possible to disregard the 10% and 100%
 222 scenarios and still adopt the conclusions of the Switching Study.

223

¹⁸ ComEd Ex. 24.0, Garcia Supplemental Direct Testimony at 7:137-138.

¹⁹ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 5:107-110.

224 **Q. Do you agree with ComEd's assertion that there is no monetary impact of the**
 225 **Commission relying upon the analysis based upon 10% and 100% switching**
 226 **assumptions?**

227 A. No. ComEd's claim that the 10% and 100% switching assumptions do not have a
 228 monetary impact on the outcome of this issue is clearly inaccurate. If the
 229 Commission accepts the results of the Switching Study, it must accept the results
 230 of a 10% and 100% switching scenario that are unrealistic and purely speculative.
 231 There is no question that accepting these results does have a direct monetary
 232 impact -- specifically, that ComEd continues to allocate virtually zero Customer
 233 Care Costs to the supply function. That misallocation creates false price signals
 234 and anti-competitive cross-subsidizations.

235

236 **IV.**

237 **STAFF WITNESS MR. RUKOSUEV'S JUSTIFICATION**
 238 **FOR SUPPORTING THE SWITCHING STUDY SHOULD BE REJECTED**

239 **Q. What reasons does Staff witness Mr. Rukosuev give for recommending that**
 240 **the Commission adopt the results of the Switching Study?**

241 A. Mr. Rukosuev agrees with ComEd that the Commission should adopt the
 242 Switching Study,²⁰ on the grounds that: (1) the Switching Study recognizes the
 243 cost of providing customer care for unbundled customers is almost equal to the
 244 combined cost for bundled customers, (2) using the Allocation Study instead of

²⁰ ICC Staff Ex. 12.0, Rukosuev Direct Testimony at 41:961-963.

245 the Switching Study would set an undesirable precedent for other Illinois utilities,
246 and (3) the Switching Study recognizes that ComEd is the default provider.²¹

247

248 **Q. Do you agree that a valid reason for adopting the results of the Switching**
249 **Study is because it allegedly recognizes that the cost of providing customer**
250 **care for unbundled customers is almost equal to the combined costs for**
251 **bundled customers?**

252 A. No. I disagree with Mr. Rukosuev's reasoning for two reasons. First, it rests on
253 an assumption that the conclusion that ComEd reaches with its Switching Study is
254 reasonable. This is the same conclusion that the Commission previously stated
255 was "difficult to imagine."²² Mr. Rukosuev has not provided any reason
256 whatsoever for the Commission to now find that the conclusion is reasonable.

257

258 Second, the Switching Study does not accomplish its fundamental task: to
259 properly allocate common Customer Care Costs between the two functional
260 categories those costs support (*i.e.*, supply and delivery). Proper cost allocation
261 demands that these costs be allocated to both functions as those costs are caused;
262 not improperly allocated only to the delivery function based on a series of flawed,
263 arbitrary, and unsupported assumptions that amount to a bias toward increasing
264 ComEd's delivery services rates.

265

²¹ ICC Staff Ex. 12.0, Rukosuev Direct Testimony at 30-32:688-732.

²² ICC Docket No. 08-0532, Final Order dated April 21, 2010, at 67.

266 **Q. Do you agree with Mr. Rukosuev's concern that an embedded cost of service**
 267 **approach should be abandoned because it could set an undesirable precedent**
 268 **for allocating Customer Care Costs for other Illinois utilities?**²³

269 A. No. First and foremost, Customer Care Costs should be allocated in a manner that
 270 respects principles of cost causation, encourages the development of retail electric
 271 competition for residential customers, and treats all customers fairly. An avoided
 272 cost approach (i.e. the Switching Study) simply does not accomplish any of these
 273 goals. Further, allocating costs using an inappropriate cost of service
 274 methodology because doing otherwise could set a precedent for allocating
 275 Customer Care Costs for other Illinois utilities does not make sense. ComEd's
 276 Customer Care Costs should be fairly allocated between the delivery and supply
 277 functions for ComEd based upon the evidence in this proceeding. If anti-
 278 competitive cross subsidies exist in other utilities' Customer Care Costs, then
 279 those cross subsidies should be addressed based on the specific facts in each case,
 280 in accord with the requirements of the Public Utilities Act. (See 220 ILCS 5/16-
 281 108(c) (requiring cost-based delivery rates).) In any event, the potential,
 282 hypothetical impact on other utilities operating under different circumstances is
 283 not a persuasive reason to inaccurately allocate Customer Care Costs in this
 284 proceeding, particularly because the Commission specifically directed that
 285 ComEd perform an embedded cost study to allocate its supply and delivery costs
 286 for consideration in this proceeding.

287

²³ ICC Staff Ex. 12.0, Rukosuev Direct Testimony at 31:709-718.

288 **Q. Do you agree that the Switching Study results are more valid because they**
 289 **recognize that ComEd is the default provider?**²⁴

290 A. No. I disagree for two reasons. First, ComEd did not make this assumption
 291 throughout its analysis. As Mr. Donovan stated in his Revised Supplemental
 292 Direct testimony:

293 In addition, ComEd still will have postage and mail delivery, as well as
 294 any corresponding labor costs, for all ComEd mailed bills and any
 295 regulatory mailing that ComEd must send to its customers, regardless of
 296 whether any particular customer has switched to a RES. The exception to
 297 this general rule is that with increased switching, ComEd will not have the
 298 same responsibility for calculating supply service charges for all customer
 299 bills so long as it is not required to offer a default service product to
 300 customers that have switched to a RES. Because ComEd will not have
 301 responsibility for calculating these charges, ComEd will not need to
 302 process supply rate adjustments for these charges. Thus, **assuming that**
 303 **ComEd would have no obligation with respect to default service**, we
 304 would expect the volume of these corrections to drop by 10% with 10%
 305 switching and 100% at 100% switching, which would result in a
 306 corresponding reduction in costs of \$858 and \$8,578, respectively, based
 307 on 2009 costs.²⁵ (emphasis added)

308
 309 Second, Mr. Rukosuev's concern is based on a set of conditions which simply do
 310 not exist today. ComEd has repeatedly stated in this proceeding that switching
 311 levels of 10% or 100% are not expected in the near future.²⁶ Therefore, being
 312 concerned about allocating costs in a manner to protect ComEd's role as a default
 313 provider should there be high levels of customer switching amounts to
 314 formulating a solution for a non-existent problem. At this point in time, no one
 315 knows when switching would increase to a level where this could even be a

²⁴ ICC Staff Ex. 12.0, Rukosuev Direct Testimony at 31:727-732.

²⁵ ComEd Ex. 19.0R, Donovan Revised Supplemental Direct Testimony at 12:276-13:287.

²⁶ ComEd Ex. 19.0R, Donovan Revised Supplemental Direct Testimony at 8:174-176 and ComEd Ex. 48.0, Donovan Rebuttal Testimony at 5:102.

concern, and no one knows if ComEd will even be the default provider at that point. When ComEd was asked about this very issue in discovery, it refused to answer because it “calls for speculation or a legal conclusion.”²⁷

Decisions on allocating Customer Care Costs should not be based on speculation, but rather should be based on what we know now based on reasonably quantifiable data. That data, validated by ComEd’s own testimony, indicates that ComEd has never had significant customer switching, does not currently have significant customer switching, and does not expect to have significant customer switching in the near future.

V.

COMED’S CRITICISMS OF MY ALLOCATOR ADJUSTMENTS ARE UNFOUNDED

Q. In your direct testimony, what primary issues did you find with respect to ComEd’s proposed cost allocators?

A. Several of the allocators suggested by ComEd resulted in implausible conclusions. For example:

- ComEd’s proposed Billing Calculation Allocator assumes that the costs associated with calculating a bill are somehow related to the number of line items on a bill;
- ComEd’s proposed System Billing Allocator allocates the cost associated with mailing a bill based on the amount of space “delivery” related items take up on the bill;

²⁷ See REACT Ex. 5.1, ComEd response to REACT Data Request 3.01.]

- 340 • ComEd's proposed IT cost allocation is based on several allocators that
341 have little to do with IT system development; such as which department
342 system users are in.²⁸

343

344 **Q. What issues does ComEd have with your adjustments to the costs allocators**
345 **ComEd used in the Allocation Study?**

346 A. ComEd has six criticisms of my adjustments to the cost allocators that ComEd
347 uses in the Allocation Study. ComEd claims that:

348 A. I mischaracterized ComEd's study by saying ComEd used 24
349 different cost allocators instead of 4;²⁹

350 B. My adjustment of the Bill Calculation Allocator from 25% to the
351 supply function to 50% to the supply function is unreasonable;³⁰

352 C. My adjustment to the System Billing Allocator (which ComEd
353 confuses as an adjustment to the Bill Print, Mailing and Imaging
354 Allocator) is unreasonable;³¹

355 D. My IT adjustments are directed at allocating IT costs among
356 customer service departments, not between delivery and supply;³²

357 E. It was inappropriate for me to allocate CIMS costs 50% to supply
358 instead of based on the number of users;³³ and

359 F. I provided no reason for my adjustment to ComEd's IT general
360 allocator.³⁴

361

362 **Q. Are any of those criticisms valid?**

363 A. No. I address each below.

²⁸ REACT Ex. 2.0, Merola Direct Testimony at 25:531-26:542.

²⁹ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 6:130-132.

³⁰ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 8:159-160.

³¹ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 9:185-192.

³² ComEd Ex. 48.0, Donovan Rebuttal Testimony at 6:124-126.

³³ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 10:214-216.

³⁴ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 11:233-235.

364

365 **A. Cost Allocators**

366 **Q. Did you mischaracterize ComEd's study by saying it used 24 different cost**
 367 **allocators instead of 4?**

368 A. No. A simple review of ComEd's workpapers³⁵ associated with Mr. Donovan's
 369 supplemental direct testimony makes it apparent that ComEd allocated costs
 370 between delivery and supply using many factors that are not directly related to
 371 ComEd's base allocators. Even if the base allocators were inputs to other
 372 allocators, many additional allocation assumptions were used to develop those
 373 other allocators.

374

375 **Q. Can you provide an example of a cost that was allocated using something**
 376 **other than one of ComEd's base allocators?**

377 A. Yes. There are many costs for which ComEd developed additional allocators.
 378 For example, the "System_Billing" worksheet in the file "IIEC 1.04
 379 _Attach123.xls" the "System Billing Delivery" allocator in cell B27 is 80.9%.
 380 Two of ComEd's base allocators, the Bill Calculation Allocator and the Bill Print,
 381 Mailing and Imaging Allocator, are inputs to this calculation, but other
 382 assumptions on "Billing work on accounts with Supply and Delivery
 383 components" are used to derive this new allocator. Therefore, the resulting
 384 System Billing Delivery Allocator of 80.9% becomes its own unique allocator for

³⁵ See REACT Ex. 5.2, ComEd Response to IIEC Data Request 1.04 Attachment 123, filename "IIEC 1.04_Attach123.xls". The Excel version of REACT Ex. 5.2 will be served on the parties.

385 the purposes of allocating certain costs -- those costs are not simply allocated
386 based on one of ComEd's "base allocators".

387

388 **Q. Does the number of ComEd allocators impact your conclusions in this**
389 **matter?**

390 A. No. My conclusions are the same regardless of the number of allocators that
391 ComEd used. I referenced the number of allocators to illustrate that while
392 ComEd's workpapers might make it appear as though ComEd did a thorough and
393 comprehensive job of analyzing how costs should be accurately allocated to the
394 delivery and supply functions, in fact ComEd fails to achieve this goal.

395

396 **B. Bill Calculation Allocator**

397 **Q. Why did you adjust the Bill Calculation Allocator from ComEd's allocation**
398 **of 25% to the supply function to 50% to the supply function?**

399 A. ComEd's Bill Calculation Allocator is based on the number of line items that
400 ComEd deems are related to supply on a typical bill. ComEd provided no
401 reasonable explanation for that approach, and I am not aware of (nor can I
402 imagine) any potential viable explanation for why the number of line items shown
403 on a bill correlates in any way with the costs caused by computing delivery or
404 supply charges. ComEd's approach is arbitrary and inherently unreasonable and
405 is not tied to any data relating to the causation of the costs that need to be
406 allocated.

407

Because ComEd did not adequately support its own allocator, I developed an alternative allocator. In my experience, including seven years of direct experience in software design, development and implementation; the costs of computing a bill are related in large part to the software systems, computer hardware, business processes, infrastructure, and personnel that are involved in bill computation. These costs support both the delivery function and the supply function. In the absence of complete alternative data from ComEd that shows that the allocation of costs should be weighted more heavily to the delivery function or more heavily to the supply function, the most reasonable approach -- *i.e.* the most reasonable default assumption -- was to allocate the indisputably common costs evenly between the two functions.

Q. Why is it appropriate to split the bill calculation costs evenly between the supply and delivery functions?

A. The 50-50 allocation in my analysis is a default assumption. This assumption may not fully reflect true cost causation, because ComEd has not provided sufficient information for the Commission to be able to accurately track cost causation. However, as a default assumption in the absence of additional cost-causation information, my approach is based on a reasonable assessment of available information, represents a reasonable approach to correlating relevant cost items to allocation between supply and delivery functions, and is far more reasonable than ComEd's arbitrary approach of allocating costs based on a criteria

430 (i.e., number of line items) that has nothing to do with causation of the costs being
431 allocated.

432

433 **Q. Does ComEd offer any new explanation for its development of the Bill**
434 **Calculation Allocator in its rebuttal testimony?**

435 A. No. ComEd simply repeats the method used in direct testimony, but offers no
436 explanation for why the method is reasonable.³⁶

437

438 **C. System Billing Allocator**

439 **Q. Did you adjust ComEd's Bill Print, Mailing and Imaging Allocator as**
440 **ComEd has asserted?³⁷**

441 A. No. I did not adjust ComEd's Bill Print, Mailing and Imaging Allocator.
442 However, I did adjust ComEd's System Billing Allocator.

443

444 **Q. How did ComEd develop its System Billing Allocator?**

445 A. ComEd develops its System Billing Allocator based on allocating \$22.2 million in
446 total costs related to billing delivery.³⁸ Of those costs, \$5.4 million are allocated
447 based on ComEd's Bill Calculation Allocator, \$0.1 million are allocated directly
448 to delivery and the remainder, \$16.6 million are allocated based on ComEd's Bill
449 Print, Mailing and Imaging Allocator. Based on these allocations, ComEd
450 concludes that 80.9% of system billing delivery costs should be allocated to

³⁶ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 7:145-152.

³⁷ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 8:170-171.

³⁸ See REACT Ex. 5.2, worksheet "System_Billing" (add cells B4, C17 and B21).

451 delivery -- ComEd then refers to this allocator in its workpapers as the “System
452 Billing” Allocator.³⁹

453

454 **Q. What costs make up the majority of the \$16.6 million ComEd allocates based**
455 **on ComEd’s Bill Print, Mailing and Imaging Allocator?**

456 A. The majority, \$14.7 million, of these costs are for mailing bills.⁴⁰

457

458 **Q. Did ComEd use a different allocator for allocating other costs that are**
459 **similar in function to mailing bills?**

460 A. Yes. ComEd allocates costs associated with revenue management, credit, and
461 collections based on a Revenue Allocator. As Mr. Donovan explains, revenue
462 management includes “managing the work of its payment processing vendor,
463 which includes activities such as opening mail, creating an electronic image of the
464 payment, and processing payments to associated accounts within CIMS”⁴¹ The
465 mailing of bills is analogous to the opening the mail, imaging the bill, and
466 processing the payment. However, for reasons it does not explain, ComEd was
467 inconsistent when applying cost allocators to these two sets of costs and uses a
468 Revenue Allocator to allocate opening the mail, but instead uses a Bill Print,
469 Mailing, and Imaging Allocator for sending the mail.

470

³⁹ See REACT Ex. 5.2, worksheet “System_Billing” (cells A27 and B27).

⁴⁰ See REACT Ex. 5.2, tab “Accts 901 902 903” (cell F8).

⁴¹ ComEd Ex. 19.0R, Donovan Revised Supplemental Direct Testimony at 18:407-19:409.

471 **Q. What adjustment did you make to ComEd's System Billing Allocator?**

472 A. I adjusted the allocation of mailing costs to be based on ComEd's Revenue
473 Allocator in the same manner ComEd allocated other similar costs, in order to
474 produce greater consistency.

475

476 **D. IT Adjustments Between Delivery and Supply**

477 **Q. ComEd states that your IT adjustments are directed at allocating IT costs**
478 **among customer service departments, not between delivery and supply.⁴² Is**
479 **ComEd's contention correct?**

480 A. No. I made two adjustments to ComEd's IT allocators that directly impact the
481 allocation of these costs between the delivery and supply function, these changes
482 were not simply reallocating costs among departments. These two adjustments
483 were to ComEd's CIMS Users Allocator and ComEd's general IT allocator.

484

485 **E. Allocation of Costs by CIMS Users**

486 **Q. How did ComEd allocate its CIMS costs?**

487 A. ComEd's CIMS costs were allocated based on ComEd's assessment of the
488 number of users of the system whose job is primarily delivery-related compared
489 to the number of users whose job is primarily supply-related. Because the
490 majority of the users work in the customer call center, ComEd effectively
491 allocated CIMS costs based on an allocator very similar to what ComEd used for
492 allocating call center costs.

⁴² ComEd Ex. 48.0, Donovan Rebuttal Testimony at 6:124-126.

493

494 **Q. Why do you take issue with ComEd proposing to allocate CIMS costs based**
 495 **upon the number of delivery and supply users of the CIMS system?**

496 A. In my experience, the number of users in a particular department has little to do
 497 with the underlying costs of developing and maintaining that system, which is the
 498 primary driver for this category of costs. ComEd has provided no information to
 499 support its assumption that the number of users is a reasonable reflection of cost
 500 causation.

501

502 **Q. How did you adjust ComEd's proposed CIMS Users Allocator to be more**
 503 **reasonable?**

504 A. CIMS clearly has a substantial role in supporting both the delivery and the supply
 505 functions; therefore, in the absence of meaningful data, I allocated the CIMS costs
 506 on an even split between delivery and supply. As I explained earlier, this is the
 507 most logical default position, and ComEd has not provided sufficient evidence to
 508 justify moving away from the default.

509

510 **Q. Did ComEd have issues with your adjustment to its proposed CIMS Users**
 511 **Allocator?**

512 A. Yes. ComEd states that "Mr. Merola makes the bald assertion that the number of
 513 users in a particular department has little to do with the underlying costs of
 514 developing and maintaining the system."⁴³

⁴³ ComEd Ex. 48.0, Donovan Rebuttal Testimony at 10:209-211.

515

516 **Q. Why did you state that number of users has little to do with the underlying**
517 **costs of developing and maintaining a system?**

518 A. I have been involved with software system development and implementation on a
519 continual basis for the past seven years, and prior to that was involved with
520 several systems implementations in my career. In my experience, the cost of
521 developing software requirements, designing software, developing the
522 application, and testing and deploying the application are generally fixed and have
523 little to do with the number of users. In some cases, some application costs may
524 be related to the number of users, such as training, hardware costs, and third-party
525 licensing costs. However, in my experience, such costs rarely make up the
526 majority of the overall system costs, and in this case ComEd did not establish that
527 these costs would be significant.

528

529 **Q. Has ComEd provided any information that would support its assertion that**
530 **the CIMS costs are directly related to the number of users?**

531 A. No. I am unaware of any information provided by ComEd in this case -- either in
532 its testimony or workpapers -- that would support the assignment of all CIMS
533 costs based on the number of users.

534

535 **F. General IT Allocator**

536 **Q. How did you adjust ComEd’s general IT allocator?**

537 A. For many of its IT related costs, ComEd allocated the costs based on a generic
538 Customer Operations Allocator. I modified this allocation so that general IT costs
539 are allocated based on the average allocation of other IT costs.

540

541 **Q. ComEd witnesses stated that there is no general IT allocator in the**
542 **company’s analysis. Where did you find this allocator?**

543 A. While ComEd does not specifically name it “the general IT allocator,” there is an
544 IT allocator that is used many times in ComEd’s workpapers to allocate IT costs.
545 Specifically, it is used by ComEd to allocate 15 different general IT cost
546 categories representing \$13.9 million of a total \$29.1 million in IT costs, or 48%
547 of the total IT costs.⁴⁴

548

549 **Q. Why did you adjust ComEd’s proposed allocation of general IT costs?**

550 A. The general IT costs are basically miscellaneous IT-related Customer Care Costs,
551 comprising 48% of ComEd’s total IT Customer Care Costs. ComEd has proposed
552 to allocate these costs based upon a Customer Operations Allocator that has no
553 basis in cost causation principles. It is more reasonable to allocate these
554 remaining 48% of IT costs based on how the other 52% of IT costs are allocated
555 rather than use an unrelated Customer Operations Allocator, so I adjusted the

⁴⁴ See REACT Ex. 5.2, worksheet “System_Billing” (cells G3, G6, G72, G73, G75, G76, G77, G135, G136, G137, G138, G139, G140, G141, and G145).

allocation of the general IT costs to match the allocation of the majority of the IT costs.

VI.

CONCLUSION

Q. Please summarize your findings.

A. The issue of how to allocate Customer Care Costs between ComEd's delivery and supply function was unresolved in the 2007 ComEd Rate Case, and in the 2008 Special Investigation Proceeding, the Commission expressed straightforward doubt about the methodology ComEd used to allocate these costs. The Commission openly questioned ComEd's prior conclusion that less than 1% of customer care costs should be allocated to supply, as "difficult to imagine" and directed ComEd to file an embedded cost study in this proceeding.

As explained in my direct testimony, ComEd's Switching Study in this proceeding, is simply a repackaging of the arguments that ComEd made, and that the Commission found to be unpersuasive, in the 2008 Special Investigation Proceeding. In both the Switching Study and ComEd's "embedded cost" or Allocation Study of its Customer Care Costs ComEd starts by inexplicably excluding a majority of ComEd's Customer Care Costs from its analysis. Then, ComEd's Allocation Study uses a number of implausible allocators, apparently designed to give the impression that a comprehensive analysis was performed, while artificially inflating ComEd's delivery services rates.

579

580 In the Rebuttal Testimony of Mr. Donovan and Mr. Garcia, ComEd has added
581 nothing to further support its argument. Rather, ComEd has attempted to confuse
582 the issue, making baseless criticisms with respect to my analysis. In the end,
583 ComEd admits that it excluded a majority of the Customer Care Costs from its
584 analysis, and fails to present any meaningful additional evidence in support of its
585 proposed allocators.

586

587 The Commission should continue to dismiss ComEd's Switching Study and
588 should compel ComEd to correct the errors in its Allocation Study to reflect a
589 more reasoned set of assumptions and defaults. I have calculated that in doing so,
590 ComEd's allocation of Customer Care Costs to the supply function should
591 increase from \$31.2 million to at least \$90.8 million.⁴⁵

592

593 By rejecting the Switching Study and adopting a revised Allocation Study, the
594 Commission will endorse an approach that best reflects cost causation. This will
595 foster competition and protect consumers.

596

597 **Q. Does this conclude your rebuttal testimony?**

598 A. Yes.

⁴⁵ See REACT Ex. 2.5C.